

ISSUE DATE: September 20, 1999

DOCKET NO. G-002/M-99-562

ORDER ACCEPTING SETTLEMENT AGREEMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey
Joel Jacobs
Marshall Johnson
LeRoy Koppendrayner
Gregory Scott

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Northern States
Power Company Gas Utility for Approval of a
Tariff Change to Repeal the Sunset Provision
in Its Predictable Commodity Price Service
Rider

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PROCEDURAL HISTORY

In October, 1997, the Commission approved a Northern States Power Company (NSP) two-year pilot program for its commercial and industrial (C & I) customers. The Predictable Commodity Price Service Rider (Predictable Price) allowed participants to purchase firm gas supplies at an annually fixed price, subject to an annual true-up rate adjustment.

During the first year, 26 NSP customers participated in the Predictable Price pilot program. In the second year, 399 customers chose to participate.

On April 23, 1999, NSP filed a miscellaneous rate change seeking to delete the pilot program's present sunset date of October 31, 1999. NSP also proposed a change in accounting and true-up procedures for gas volumes purchased for the program but eventually assigned to non-participants.

On June 23, 1999, the Department of Public Service (the Department) filed comments. The Department recommended granting NSP's request to eliminate the sunset provision from the Predictable Price tariff, with three conditions. First, the Department recommended that the Commission reject NSP's proposed method of accounting for "unused" predictable price rider gas, and instead leave open the accounting method at this time. NSP should annually select and submit the cost-assignment method that best tracks the price that would have occurred absent the predictable price option and that least harms non-participants. Second, the Department recommended requiring a variance to Minn. Rules, parts 7825.2910 and 7825.2700 to allow the Company to adjust gas costs annually rather than monthly and to allow NSP to true-up and adjust costs on November 1 rather than September 1 of each year. Third, the Department recommended that the Company continue its present annual program reporting requirements, plus an annual "index-price" informational filing and an annual comparative two-part test to calculate the annual true-up.

On July 2, 1999, NSP filed reply comments. The Company disagreed with the recommendations

of the Department. NSP argued that the Department's recommended cost assignment methodology would be overly burdensome and would unduly cost-shift from non-participants to participants. NSP stated that the Commission's approval of a tariff establishing an annual November 1 true-up and price adjustment would obviate the need for any rule variance regarding the timing of rate adjustments. Lastly, NSP objected to the Department's proposal to require the annual filing of the "two-part test."

On September 1, 1999, NSP and the Department filed a settlement expressing agreement on every issue in the Predictable Commodity Price Service Rider.

On September 2, 1999, the proposed settlement agreement came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. THE TERMS OF THE SETTLEMENT AGREEMENT

The major terms of the proposed settlement agreement are as follows:

- NSP's Predictable Price program would be continued indefinitely. The current sunset provision would be deleted.
- NSP would use the Weighted Average Commodity Cost of Gas (WACOG) to account for the assignment of unused program gas to non-participants.
- The parties agreed that NSP would request a three-year variance to Minn. Rules, parts 7825.2700 and 7825.2910, and that the variance should be granted.
- NSP would continue to provide its present informational filings regarding the program, and in addition would provide the Department, on an annual basis, the monthly price that NSP would have paid for the gas that is currently under fixed-price contracts, had NSP not converted the contracts.

II. COMMISSION ACTION

The Commission finds that the terms of the settlement agreement are consistent with the public interest and supported by substantial evidence, and that the settlement agreement should be accepted. The Commission will discuss the major terms of the agreement in turn.

A. Extension of the Rider

In the two years that NSP's Predictable Price Rider has been in place, 399 customers--or approximately 1.5 percent of the Company's firm C & I customers--have signed on. This level of participation indicates significant ongoing customer interest. So long as a program is consistent with the public interest (which the Commission here finds), the Commission favors an opportunity to expand choice for gas customers.

B. "Unused" Fixed-Price Gas Cost Assignment

The parties have agreed that NSP would use the WACOG to assign unused program gas to non-participants. The WACOG is a reasonable method of representing the price NSP would have paid for the gas, but for the program. It is a method readily understood by participants, and will provide customers a reasonable level of certainty regarding NSP's costs for unused fixed-price gas in the following year's true-up. The WACOG calculation preserves the pre-program status quo for non-participants, neither raising nor lowering their exposure to price risk. Finally, using the WACOG cost assignment methodology avoids the complicated two-part tests required by the Department's original proposal.

C. Variance to Cost Adjustment and True-up Timing Rules

The parties have agreed that NSP will request a three-year variance to Minn. Rules, parts 7825.2700 and 7825.2910 to allow an annual, rather than monthly, cost adjustment and a November 1 true-up date.

The Commission finds that the request for variance fulfills the criteria for granting a variance under Minn. Rules, part 7829.3200. First, enforcement of the rules would impose an excessive burden upon NSP and its customers by precluding the annual cost adjustments necessary to implement this worthwhile program. Second, granting the variances would be in the public interest because they allow the Company to continue to offer, and its customers to choose, more predictable rates. NSP's program appropriately balances the interests of participants and non-participants and does not adversely affect customers or the public interest. Third, since the monthly cost adjustment reporting requirements and the September 1 true-up date are created by rule, not by statute, granting the rule variance does not conflict with any standards imposed by law.

D. Reporting Requirements

The reporting requirements agreed upon in the settlement will allow the Commission and the Department to determine whether the Predictable Price option and NSP's assignment of gas costs in the true-up continue to result in just and reasonable rates. The reporting requirements will allow appropriate regulatory monitoring without unduly or unnecessarily burdening the Company.

III. CONCLUSION

The Commission finds that the proposed settlement agreement is consistent with the public interest and supported by substantial evidence. The permanent Predictable Price program agreed upon by the parties expands customer choice while appropriately balancing the interests of program participants and nonparticipants. Acceptance of the settlement allows the substantial number of participants in the program to continue to receive more predictable costs.

For all these reasons, the Commission accepts the parties' proposed settlement agreement.

ORDER

1. The Commission accepts the September 1, 1999 settlement agreement between NSP Gas and the Department. The settlement agreement is attached as Exhibit A to this Order.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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